

Carlsbad Redevelopment Agency

Financial and Compliance Report
Year Ended June 30, 2011

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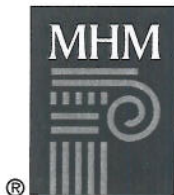
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**Board of Directors
Carlsbad Redevelopment Agency
Carlsbad, California**

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Carlsbad Redevelopment Agency (a component unit of the City of Carlsbad, California) as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These component unit financial statements are the responsibility of the management of the Carlsbad Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Carlsbad Redevelopment Agency, as of June 30, 2011, and the respective changes in financial position of the Carlsbad Redevelopment Agency and the respective budgetary comparison information for the major special revenue funds of the Carlsbad Redevelopment Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in note 11, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

During the year ended June 30, 2011, the Carlsbad Redevelopment Agency changed the manner in which it reports fund balance as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement Number 54 as described further in the notes to the financial statements.

Board of Directors
Carlsbad Redevelopment Agency
Carlsbad, California

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carlsbad Redevelopment Agency's basic financial statements. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2011 on our consideration of the Carlsbad Redevelopment Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor Hoffman Milan A.C.

Irvine, California
November 11, 2011

Financial Section

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Management's Discussion and Analysis

The Carlsbad Redevelopment Agency (Agency) established the Village project area in 1981 to help in eliminating blight and blighting influences from the Village downtown area, and to achieve desired development, reconstruction and rehabilitation, including but not limited to, residential, commercial, industrial and retail. The Agency established a second project area, the South Carlsbad Coastal project area, in 2000. The Agency finances projects with advances made by the City of Carlsbad (City) and a tax allocation bond issue for the Village downtown area. City advances and bond debt service payments are paid with annual property tax increment revenue.

As management of the Carlsbad Redevelopment Agency, we offer readers of the Agency's financial statements this overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2011. Management wants to assist the reader of these financial statements to better understand the impact of financial decisions made by the Agency. This analysis will focus on the significant changes in an effort to explain the Agency's overall financial condition.

Overview of the Financial Statements

The Agency's basic financial statements include three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements and (3) Notes to the Financial Statements.

Government-wide Financial Statements: The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business. The statements comprise the *Statement of Net Assets* and the *Statement of Activities*.

Statement of Net Assets—presents information on all of the Agency's assets and liabilities (including all of its capital assets and long-term liabilities) with the difference between the two reported as *net assets*. Increases or decreases in net assets may indicate whether the financial position of the Agency is improving or deteriorating over time.

Statement of Activities—presents information showing how the Agency's net assets changed during the fiscal year. Changes in net assets are reported on a full accrual basis, or as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

The Government-wide Financial Statements can be found on pages 7 and 8 of this report.

Fund Financial Statements: The Fund Financial Statements provide more detailed information about the individual funds of the Agency and reinforce information provided in the Government-wide Financial Statements. Funds are separate accounts established to maintain control over resources that are segregated for specific activities or objectives. All of the Agency's funds are *governmental* funds.

Fund Financial Statements focus on *near-term inflows and outflows of spendable resources* and the *balances of spendable resources* available at the end of the fiscal year. Since the Fund Financial Statements measure only current revenues, expenditures and fund balances, they exclude capital assets, long-term debt and other long-term amounts.

The basic Governmental Fund Financial Statements can be found on pages 9–16 of this report.

Financial Analysis of the Agency

Net Assets: The Agency's liabilities exceeded assets by just over \$5.8 million at the close of Fiscal Year 2010-11. This deficit was originally created when the City's General Fund loaned the Agency money to cover debt service costs during the period soon after the Agency's bonds were issued, and when tax increment revenues were not sufficient to cover the entire debt expense. Redevelopment agencies typically leverage current tax increment revenues by issuing long-term debt (including loans from the City) in order to raise capital to promote economic development within the project areas. When the Agency's bonds were issued, a majority of the bond proceeds were used to finance capital assets. At June 30, 2011, \$9.7 million of bonds are still outstanding and, \$23.6 million in loans payable to the City are contributing to create this deficit.

Total assets increased by \$4.8 million during Fiscal Year 2010-11. Current and other assets increased by \$5 million; cash and investments increased by \$5.5 million; tax and other receivables decreased by \$11,000; and affordable housing loans receivables decreased by \$486,000 due to an affordable housing loan pay-off. Net capital assets decreased by \$163,000, due primarily to depreciation expense. The receipt of \$3.8 million in advances from the City of Carlsbad is the primary reason for the increase in cash and investments for the year.

Total liabilities increased by \$3.3 million during Fiscal Year 2010-11. Current liabilities increased by \$47,000 and long-term liabilities increased by \$3.3 million due primarily to additional advances from the City of Carlsbad. The advances were used by the Agency to help fund operations and capital improvement projects.

Carlsbad Redevelopment Agency		
Net Assets		
	2011	2010
Current and Other Assets	\$ 18,728,625	\$ 13,748,537
Capital Assets	8,964,989	9,128,288
Total assets	27,693,614	22,876,825
Current Liabilities	805,512	758,722
Long-term Liabilities	32,765,862	29,547,165
Total liabilities	33,571,374	30,305,887
Net Assets (Deficit):		
Invested in capital assets	(770,011)	(1,121,712)
Restricted for Low and Mod Income Housing	10,103,732	9,159,655
Unrestricted	(15,211,481)	(15,467,005)
Total net assets (deficit)	\$ (5,877,760)	\$ (7,429,062)

Changes in Net Assets: The increase in net assets for governmental activities was \$1.55 million. This increase was generated by total revenues of \$4.6 million offset by \$3 million in total expenses.

The Agency's Fiscal Year 2010-11 revenue came primarily from property tax increment. The Agency can receive tax increment from the two redevelopment project areas: the Village area and the South Carlsbad Coastal area. Total Village property tax increment received during the year was approximately the same as the amount received in Fiscal Year 2009-10. The South Carlsbad Coastal area did not receive any property tax increment in Fiscal Year 2010-11 or in Fiscal Year 2009-10 because the assessed property values in this area have declined, due to lower assessed values assigned to the Encina Power facility.

Charges for services revenue represents rental income collected from tenants of the Agency's affordable senior apartment building, and totaled \$470,000 and building permit fees and totaled \$7,000 for Fiscal Year 2010-11, which is a decrease of \$5,000, or 1%, from the prior year. Income from property and investments, which includes rental income and investment interest income, contributed an additional \$584,000 to the Agency's total revenue in Fiscal Year 2010-11, compared to \$428,000 earned in Fiscal Year 2009-10, an increase of 36%. The \$156,000 increase in income from property and investments for Fiscal Year 2010-11 is primarily a result of increased cash balances resulting from the receipt of advances from the City of Carlsbad.

Agency expenses in Fiscal Year 2010-11 included \$2 million for administration and operation of affordable housing and redevelopment activities, and \$1 million for interest and fiscal charges on the advances from the City of Carlsbad and the Agency's Tax Allocation Bonds.

Community development expenses decreased \$6.3 million in Fiscal Year 2010-11 from Fiscal Year 2009-10. In Fiscal Year 2009-10, the Agency acquired two parcels within the Village redevelopment area from the City of Carlsbad for \$4.4 million. The parcels were acquired for the purposes of property redevelopment, area revitalization, blight elimination, and economic development. Also, during Fiscal Year 2009-10, the Agency made a larger state mandated SERAF (Supplemental Educational Revenue Augmentation Funds) payment of \$1.4 million. The Fiscal Year 2010-11 SERAF payment was \$278,000. The SERAF was legislatively established by the State of California and required the Agency, together with other redevelopment agencies, to deposit payments into this fund for Fiscal Year 2009-10 and Fiscal Year 2010-11. This fund is used by the State to reallocate property taxes away from redevelopment agencies and into schools and education to allow the State budget flexibility. During Fiscal Year 2009-10, the Agency also incurred \$1.4 million in expenses to pay for costs related to all legal and other related actions to respond to, and establish opposition to, the application submitted to the California Energy Commission by Cabrillo Power for a new power plant on property located within the South Carlsbad Coastal redevelopment area. The new project is not supported by the Agency because it will not eliminate the existing blighting conditions resulting from the Encina facility and new blighting conditions will be created as a result of the new project.

Total interest expense decreased by \$20,000 due to a reduction in interest expense associated with the Agency's Tax Allocation Bonds.

Carlsbad Redevelopment Agency Changes in Net Assets		
	2011	2010
Revenues:		
Program revenues:		
Charges for services	\$ 477,445	\$ 482,835
Contributions from property owners	-	1,150,845
General revenues:		
Property tax increment	3,525,885	3,529,898
Income from property and investments	584,243	427,736
Total revenues	4,587,573	5,591,314
Expenses:		
Community development	2,043,040	8,295,028
Interest on long-term debt	993,231	1,013,628
Total expenses	3,036,271	9,308,656
Changes in net assets	1,551,302	(3,717,342)
Net Assets (Deficit), at the beginning of the year	(7,429,062)	(3,711,720)
Net Assets (Deficit), at the end of the year	\$ (5,877,760)	\$ (7,429,062)

The Agency's fund financial statements: At June 30, 2011, the Agency's Governmental funds reported a combined fund balance of \$18.6 million, an increase in the fund balance of \$4.9 million from the prior fiscal year.

Land held for resale: As of June 30, 2011, the Agency did not have land held for resale.

Capital assets and long-term debt: Total capital assets decreased by \$163,000, or 2%, as a result of depreciation expense. Total long-term debt outstanding as of June 30, 2011 amounted to \$33.3 million, which includes the loans from the City for \$23.6 million and future principal payments on the Agency's Tax Allocation Bonds in the amount of \$9.7 million.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes to the financial statements can be found on pages 17-26 of this report.

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Finance Department, 1635 Faraday Avenue, Carlsbad, California 92008. We can also be reached at (760) 602-2430, or visit us on-line at www.carlsbadca.gov.

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Carlsbad Redevelopment Agency

Statement of Net Assets

June 30, 2011

Assets

Cash and Investments	\$ 15,986,770
Receivables:	
Taxes	61,681
Accounts, net	1,997
Loans Receivable	2,678,177
Capital Assets, net	8,964,989
Total assets	\$ 27,693,614

Liabilities

Accrued Liabilities	\$ 233,822
Deposits Payable	29,190
Deferred Revenue	2,500
Current Portion of Long-term Debt	540,000
Noncurrent Liabilities	
Advances from the City of Carlsbad	23,570,862
Due in more than one year	9,195,000
Total liabilities	\$ 33,571,374

Net Assets (Deficit)

Invested in Capital Assets, net of related debt	\$ (770,011)
Restricted for Low-Moderate Income Housing	10,103,732
Unrestricted (Deficit)	(15,211,481)
Total net assets (deficit)	\$ (5,877,760)

The notes to the financial statements are an integral part of this statement.

Carlsbad Redevelopment Agency

**Statement of Activities
For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues		Net Revenues (Expenses) and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	Governmental Activities
Governmental Activities:				
Community development	\$ 2,043,040	\$ 477,445	\$ -	\$ (1,565,595)
Interest on long-term debt	993,231	-	-	(993,231)
Total governmental activities	\$ 3,036,271	\$ 477,445	\$ -	(2,558,826)
General Revenues:				
Property tax increment				3,525,885
Income from property and investments				584,243
Total general revenues, transfers and advances				4,110,128
Changes in net assets				1,551,302
Net Assets (Deficit), at beginning of year				(7,429,062)
Net Assets (Deficit), at end of year				\$ (5,877,760)

The notes to the financial statements are an integral part of this statement.

Carlsbad Redevelopment Agency

**Balance Sheet—Governmental Funds
June 30, 2011**

	Special Revenue Funds	
	Low-Mod Income Housing	Tyler Court Apartments
Assets		
Cash and investments	\$ 7,413,741	\$ 2,058,496
Receivables:		
Taxes	12,336	-
Accounts, net	-	-
Loans receivable	2,678,177	-
Total assets	\$ 10,104,254	\$ 2,058,496
Liabilities and Fund Balances		
Liabilities		
Accrued liabilities	\$ 522	\$ 331
Deposits payable	-	25,190
Deferred revenue	-	2,500
Total liabilities	522	28,021
Fund balances		
Restricted:		
Affordable and low and moderate income housing projects	10,103,732	2,030,475
Community development	-	-
Capital projects	-	-
Debt service	-	-
Total fund balances	10,103,732	2,030,475
Total liabilities and fund balances	\$ 10,104,254	\$ 2,058,496

The notes to the financial statements are an integral part of this statement.

Debt Service	Capital Projects	Total Governmental Funds
\$ 1,540,216	\$ 4,974,317	\$ 15,986,770
49,345	-	61,681
-	1,997	1,997
-	-	2,678,177
\$ 1,589,561	\$ 4,976,314	\$ 18,728,625

\$ -	\$ 61,990	\$ 62,843
-	4,000	29,190
-	-	2,500
-	65,990	94,533

-	-	12,134,207
-	14,324	14,324
-	4,896,000	4,896,000
1,589,561	-	1,589,561
1,589,561	4,910,324	18,634,092
\$ 1,589,561	\$ 4,976,314	\$ 18,728,625

Carlsbad Redevelopment Agency

**Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2011**

Total fund balances—governmental funds.	\$ 18,634,092
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Amounts reported for governmental activities and in the statement of Net Assets are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,964,989
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Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the funds.	(170,979)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(33,305,862)
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Net assets (deficit) of governmental activities	<u>\$ (5,877,760)</u>
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The notes to the financial statements are an integral part of this statement.

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Carlsbad Redevelopment Agency

**Statement of Revenues, Expenditures and Changes in Fund Balances—
Governmental Funds
For the Year Ended June 30, 2011**

	Special Revenue Funds	
	Low-Moderate Income Housing	Tyler Court Apartments
Revenues:		
Property tax increment	\$ 705,177	\$ -
Charges for services	-	469,727
Income from property and investments	361,098	26,871
Total revenues	1,066,275	496,598
Expenditures:		
Current:		
Community development	122,198	455,613
Capital outlay	-	-
Debt service:		
Principal retirement	-	-
Interest and fiscal charges	-	-
Total expenditures	122,198	455,613
Excess (deficiency) of revenues over (under) expenditures	944,077	40,985
Other financing sources (uses):		
Issuance of Debt - Advances from the City of Carlsbad	-	-
Transfers in	-	-
Transfers out	-	-
Total other financing sources (uses)	-	-
Net change in fund balances	944,077	40,985
Fund Balance, beginning of year	9,159,655	1,989,490
Fund Balance, end of year	\$ 10,103,732	\$ 2,030,475

The notes to the financial statements are an integral part of this statement.

Debt Service	Capital Projects	Total Governmental Funds
\$ 2,820,708	\$ -	\$ 3,525,885
-	7,718	477,445
-	196,274	584,243
2,820,708	203,992	4,587,573
366,841	828,255	1,772,907
-	106,834	106,834
515,000	-	515,000
528,547	-	528,547
1,410,388	935,089	2,923,288
1,410,320	(731,097)	1,664,285
285,000	3,000,000	3,285,000
-	1,838,000	1,838,000
(1,838,000)	-	(1,838,000)
(1,553,000)	4,838,000	3,285,000
(142,680)	4,106,903	4,949,285
1,732,241	803,421	13,684,807
\$ 1,589,561	\$ 4,910,324	\$ 18,634,092

Carlsbad Redevelopment Agency

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011**

Net change in fund balances—total Governmental Funds.	\$ 4,949,285
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Purchase of capital assets	44,971
Depreciation expense	(208,270)

Repayment of bond principal is an expenditure in Governmental Funds. However, in the Statement of Net Assets, the repayment reduces long-term liabilities in the Government-wide Statement of Net Assets. This amount represents long-term debt repayments.

515,000

Governmental funds report the net proceeds from advances as revenue and an increase in long-term debt. Interest payments on advances reduce long-term debt. However, in the Statement of Activities, only current liabilities are reported. This amount represents the net change for the year.

(3,285,000)

In the Statement of Activities, interest is accrued on long-term debt whereas, in the Governmental Fund Statements, an interest expenditure is reported when due.

Change in net assets of governmental activities

(464,684)

\$ 1,551,302

The notes to the financial statements are an integral part of this statement.

Carlsbad Redevelopment Agency

**Statement of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual—
Low-Moderate Income Housing Funds
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(Budgetary Basis)	Final Budget— Over (Under)
Revenues:				
Taxes	\$ 647,000	\$ 681,250	\$ 705,177	\$ 23,927
Income from property and investments	108,000	260,000	378,328	118,328
Total revenues	<u>755,000</u>	<u>941,250</u>	<u>1,083,505</u>	<u>142,255</u>
Expenditures:				
Community development	163,741	163,741	124,198	(39,543)
Total expenditures	<u>163,741</u>	<u>163,741</u>	<u>124,198</u>	<u>(39,543)</u>
Net change in fund balances	<u>591,259</u>	<u>777,509</u>	<u>959,307</u>	<u>\$ 181,798</u>
Fund Balance at beginning of year	9,159,655	9,159,655	9,159,655	
Fund Balance at end of year	<u>\$ 9,750,914</u>	<u>\$ 9,937,164</u>	<u>\$ 10,118,962</u>	

The notes to the financial statements are an integral part of this statement.

Carlsbad Redevelopment Agency

**Statement of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual—
Low-Moderate Income Housing Funds (Continued)
For the Year Ended June 30, 2011**

Budget-to-GAAP Reconciliation

	Actual Amounts (Budgetary Basis)
Revenues	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule (previous page).	\$ 1,083,505
The recording of unrealized gains and losses on the City's investments are shown for financial reporting purposes (pursuant to GASB 31), but are not shown for budgetary purposes.	(17,230)
	<u>\$ 1,066,275</u>
Expenditures	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule (previous page).	\$ 124,198
Differences—budget to GAAP:	
Encumbrances are shown in the year encumbered for budgetary purposes, but in the year paid for financial reporting purposes.	(2,000)
	<u>\$ 122,198</u>

The notes to the financial statements are an integral part of this statement.

Carlsbad Redevelopment Agency

Notes to Financial Statements

Year Ended June 30, 2011

Note 1. Summary of Significant Accounting Policies

The Carlsbad Redevelopment Agency (the Agency) was established in July 1976 with the adoption of Ordinance No. 1191 by the Carlsbad City Council pursuant to the *California Community Redevelopment Law*, now codified as Part 1, Division 24, of the State of California Health and Safety Code. The Agency has the broad authority to acquire, rehabilitate, develop, administer, and sell or lease property. The Agency is not subject to federal or state income taxes.

The principal objectives of the Agency are to eliminate blighted influences within the Village and South Carlsbad Coastal project areas of the City of Carlsbad, California, (the City), stimulate and attract private investment, generate added employment through increased specialty goods and services, and expand the City's sales tax revenue.

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

Description and scope of the reporting entity: The Agency is an integral part of the reporting entity of the City. The funds of the Agency have been included within the scope of the basic financial statements of the City because the City Council is the governing board over the operations of the Agency. Only the funds of the Agency are included herein; therefore, these financial statements do not purport to represent the financial position or results of operations of the City.

Government-wide and Fund Financial Statements: The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges for support. The Agency does not have any business-type activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable to a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, if any. Taxes and other items not properly classified as program revenues are reported as general revenues.

Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported in separate columns in the Fund Financial Statements. There were no non-major funds as of June 30, 2011.

Measurement focus, basis of accounting and financial statement presentation: The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. In applying the susceptible-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Property taxes are recognized as revenues in the year for which they are levied.

Note 1. Summary of Significant Accounting Policies, Continued

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, as long as the expenditure reflects a near-term cash outflow. Principal and interest on long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

The Agency's primary source of revenue is property taxes, referred to in the accompanying financial statements as "property tax increment." Property taxes allocated to the Agency are computed in the following manner: property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City.

The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the state and federal governments, interest income and the issuance of Agency debt.

Real property taxes are levied on October 15 against property owners of record on January 1 of that year. The taxes are due in two installments, on November 1 and February 1, and become delinquent after December 10 and April 10, respectively. Tax liens attach annually as of 12:01 a.m. on the first day of January in the fiscal year for which the taxes are levied.

California Community Redevelopment Law (Health & Safety Code) 33334.12(g)(1) defines excess surplus to mean any unexpended and unencumbered amount in an agency's Low and Moderate Income Housing Fund that exceeds the greater of \$1,000,000 or the aggregate amount of tax increment deposited into the Low and Moderate Income Housing Fund during the preceding four fiscal years. At June 30, 2011, the Low and Moderate Income Housing Funds for Project Area I (Village) had an excess surplus of \$158,159. Project Area II (South Carlsbad Coastal) did not exceed the maximum.

The Agency has presented the following major funds:

The **Low-Moderate Income Housing** special revenue funds are used to account for money administered by the Agency for designated low- and moderate-income housing projects.

The **Tyler Court Apartments** special revenue fund is used to account for the operations of the affordable senior citizen apartment project.

The **Redevelopment Debt Service Funds** are used to account for the accumulation of resources for and payment of, principal and interest on the Agency's bonds, issued to finance improvements for the downtown and southern coastal areas of the City.

Carlsbad Redevelopment Agency

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, Continued

The **Capital Projects** funds are used to account for capital projects and general operations of the Agency.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying note disclosures. Accordingly, actual results could differ from those estimates.

Cash and investments: Cash includes amounts in demand and time deposits. Investments are reported in the accompanying balance sheet at fair value.

Changes in fair value that occur during a fiscal year are recognized as income from investments reported for that fiscal year. Income from property and investments includes interest earnings; changes in fair value; any gains or losses realized upon the liquidation, maturity or sale of investments; property rentals; and the sale of Agency-owned property.

The Agency maintains its cash and investments for all funds with the City as pooled cash and investments. Each fund's share of the pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds on a monthly basis, based on each fund's average cash and investments balance.

Capital assets: Capital assets, which include land (including right-of-way), buildings, equipment and infrastructure assets (e.g., roads, bridges, traffic signals, water and wastewater systems, and similar items), are reported in the applicable governmental or business-type activities columns in the Government-wide Financial Statements. Capital assets are defined by the Agency as machinery and equipment with an initial, individual cost greater than \$10,000 and an estimated useful life in excess of one year; and significant capital construction and software, excluding street lights and other pieces of machinery and equipment, with an initial, individual cost greater than \$100,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Construction-in-progress costs are transferred to their respective fixed asset category upon completion.

Depreciation is charged to the community development program, in the Statement of Activities, using the straight-line method based on the estimated useful life of an asset. The estimated useful lives of depreciable assets are 10–50 years for buildings and improvements and 3–20 years for equipment.

In June 1999, GASB Statement No. 34 was issued, which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Agency has no infrastructure to be included in the capital assets.

Long-term obligations: In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

In the Fund Financial Statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Note 1. Summary of Significant Accounting Policies, Continued

Net assets: Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed by creditors, grantors, or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

Use of restricted/unrestricted net assets: When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

Unrestricted net assets: The Agency's unrestricted net assets are in a deficit position primarily because long-term debt is in excess of capital assets owned by the Agency. The Agency issues debt for construction and/or acquisition of assets, which it then turns over to the City or to private parties within the redevelopment project area.

Note 2. Budgetary Data

During May or June, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are conducted at the City Council meetings to obtain citizens' comments during June. The City Council finalizes the budget no later than July 1.

The City Manager (as the Agency Executive Director) is authorized to make transfers of appropriated amounts from one department to another within a fund. The legal level of budgetary control is at the fund level. Budgets have been adopted for the Low-Moderate Income Housing special revenue fund, the debt service funds, and the capital project funds, in total. A budget is not adopted for the Tyler Court Apartments special revenue fund. Revisions that alter the total appropriations of any fund must be approved by the City Council, with the exception of budget adjustments that involve offsetting revenues and expenditures. The City Manager is authorized to increase or decrease an appropriation for a specific purpose where the appropriation is offset by unbudgeted revenue, which is designated for said specific purpose.

Monthly reports are provided to the City Council during the year, and any changes to the adopted budget are approved by the City Council as necessary.

Budgets for governmental type funds are adopted on the modified accrual basis, except that encumbrances are treated as budgeted expenditures in the year purchases are committed.

Expenditures may not exceed budgeted appropriations at the fund level. All appropriations lapse at fiscal year end unless the City Council takes action in the form of a resolution to continue the appropriation into the following fiscal year.

For purposes of budgetary presentation, actual revenues have been adjusted to exclude unrealized gains and losses pursuant to GASB Statement No. 31, and actual expenditures have been adjusted to include encumbrances outstanding.

Note 3. Cash and Investments

The Agency's cash and invested cash are pooled with the City's cash and invested cash. Income from the investment of pooled cash is allocated to the Agency's funds on a monthly basis, based upon the average monthly balance of the fund as a percent of the average monthly total pooled cash balance. Individual investments cannot be identified with any single fund because the City may be required to liquidate its investments at any time to cover large cash outlays required in excess of normal operating needs. Cash and invested cash consist of U.S. government-backed securities and investments in State of California Local Agency Investment Fund, as well as corporate notes. The City values all of its cash and invested cash at fair value on a portfolio basis. The City manages its pooled idle cash and investments under a formal investment policy that is reviewed by the Investment Committee and adopted annually by the City Council and that follows the guidelines of the State of California Government Code.

Invested cash is stated at fair value. The increase in the fair value of investments is recognized as an increase to interest income revenue. The City normally holds investments to term; therefore, no realized gain/loss is recorded.

Citywide information concerning cash and investments for the year ended June 30, 2011, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's Comprehensive Annual Financial Report.

Note 4. Loans Receivable

Loans receivable represent monies provided to low- and moderate-income residents in the City for home improvements or down payments made to acquire certain residences within the City and to the developers of such residences qualifying as low- and moderate-income housing. As of June 30, 2011, there were five loans outstanding, totaling \$2,678,177, of varying terms, which are typically paid off over the final years of the term. Transfer of ownership of the property prior to the final year of the loan causes the balance owed to become due and payable to the Agency. The loans are collateralized by the property acquired/developed.

Carlsbad Redevelopment Agency

Notes to Financial Statements

Note 5. Capital Assets

Capital asset activity was as follows for the year ended June 30, 2011:

	Balance at July 1, 2010	Increases	Decreases	Balance at June 30, 2011
Capital Assets not being depreciated:				
Land	\$ 3,453,332	\$ -	\$ -	\$ 3,453,332
Construction in progress	91,973	44,971	-	136,944
Total capital assets not being depreciated	3,545,305	44,971	-	3,590,276
Capital Assets being depreciated:				
Buildings	6,528,188	-	-	6,528,188
Improvements	444,055	-	-	444,055
Machinery and Equipment	26,946	-	-	26,946
Total capital assets being depreciated	6,999,189	-	-	6,999,189
Less Accumulated Depreciation for:				
Buildings	(998,978)	(199,754)	-	(1,198,732)
Improvements	(403,306)	(5,821)	-	(409,127)
Machinery and Equipment	(13,922)	(2,695)	-	(16,617)
Total accumulated depreciation	(1,416,206)	(208,270)	-	(1,624,476)
Total capital assets being depreciated, net	5,582,983	(208,270)	-	5,374,713
Governmental activities capital assets, net	\$ 9,128,288	\$ (163,299)	\$ -	\$ 8,964,989

Depreciation expense of \$208,270 was charged to the Community Development Function/Program on the Statement of Activities.

Carlsbad Redevelopment Agency

Notes to Financial Statements

Note 6. Long-term Debt

The following is a summary of changes in the principal balance of long-term debt for the year ended June 30, 2011:

	Principal Balance at June 30, 2010	Additions	Reductions	Principal Balance at June 30, 2011	Due Within One Year
Governmental Activities:					
Bonds	\$ 10,250,000	\$ -	\$ 515,000	\$ 9,735,000	\$ 540,000
Advances from City of Carlsbad	19,812,165	3,758,697	-	23,570,862	-
Total governmental activity	\$ 30,062,165	\$ 3,758,697	\$ 515,000	\$ 33,305,862	\$ 540,000

Long-term debt at June 30, 2011 is comprised of the following

1993 Carlsbad Housing and Redevelopment Commission Tax Allocation Bonds, principal due in amounts ranging from \$540,000 to \$1,000,000 on September 1 of each year through 2024. Interest payable on March 1 and September 1 at rates varying from 5.25% to 5.30% per annum. The Agency posted a surety bond in lieu of cash reserve in the amount of \$1,055,953. Payable from redevelopment property tax increment revenues.

\$ 9,735,000

The Village Redevelopment Area has been advanced funds from the City's General Fund. As of June 30, 2011, the principal amount of the advance totals \$5,777,185 and the interest portion of the advance totals \$12,171,085. Interest is calculated at a variable rate annually based on the annual average rate of return earned on the the City's investment portfolio. Payable from available property-tax increment or other Agency revenues.

17,948,270

The South Coastal Carlsbad Redevelopment Area has been advanced funds from the City's General Fund. As of June 30, 2011, the principal amount of the advance totals \$2,128,900 and the interest portion of the advance totals \$170,463. Interest is calculated at a variable rate annually based on the annual average rate of return earned on the the City's investment portfolio. Payable from available property-tax increment or other Agency revenues.

2,299,363

The South Coastal Carlsbad Redevelopment Area has been advanced funds from the City's General Capital Construction Fund. As of June 30, 2011, the principal amount of the advance totals \$250,000 and the interest portion of the advance totals \$11,569. Interest is calculated at a variable rate annually based on the annual average rate of return earned on the the City's investment portfolio. Payable from available property-tax increment or other Agency revenues.

261,569

Carlsbad Redevelopment Agency

Notes to Financial Statements

Note 6. Long-term Debt, Continued

The South Coastal Carlsbad Redevelopment Area has been advanced funds from the City's TransNet Fund. As of June 30, 2011, the principal amount of the advances totals \$3,000,000 and the interest portion of the advance totals \$61,660. Interest is calculated at a variable rate annually based on the annual average rate of return earned on the City's investment portfolio. Payable from available property-tax increment or other Agency revenues.

3,061,660

Less current portion

540,000

\$ 32,765,862

The annual requirements, principal and interest to amortize the outstanding debt as of June 30, 2011 are as follows:

Years Ending June 30,	Governmental Activities	
	Principal	Interest
2012	\$ 540,000	\$ 498,765
2013	570,000	469,627
2014	600,000	438,915
2015	630,000	406,628
2016	665,000	372,634
2017-2021	3,880,000	1,286,898
2022-2024	2,850,000	231,875
	<u>\$ 9,735,000</u>	<u>\$ 3,705,342</u>

The Tax Reform Act instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not paid to the federal government at least every five years.

The Agency does not have investment earnings on various bonds and financings; therefore, no arbitrage rebate liability exists as of June 30, 2011.

Since activation of the Agency in July 1976, the City has loaned the Agency monies for approved expenditures. Loans from the City bear interest equal to the City's interest rate received on pooled investments. There is no stated maturity date. The outstanding balance at June 30, 2011 is \$23,570,862.

Pledged Revenue

The Agency has one outstanding debt issuance that is collateralized by pledged tax increment revenue. The amount and term of the remainder of this outstanding debt is presented in Note 6. The purpose of the debt issuance was for the financing of certain redevelopment activities within the Project Area. For the current year, debt service payments

Carlsbad Redevelopment Agency

Notes to Financial Statements

Note 6. Long-term Debt, Continued

as a percentage of the pledged gross revenue (net of expenses) is indicated in the table below. This percentage also approximates the relationship of debt service to pledged revenue for the remainder of the term of this debt:

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses)	Annual Debt Service Payments	Debt Service as a Percentage of Pledged Revenue
Tax increment (Village Area)	\$ 2,140,049	\$ 1,041,459	49%

Note 7. Fund Balances: Fund balances are reported in the Agency's statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as receivables) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Note 8. Risk Management

The Agency is exposed to various risks of loss related to its operations, including but not limited to, losses associated with injuries to members of the public and property damage. The Agency, through the City, is self-insured, with excess coverage for liability purposes, and carries property insurance as well through the City. Since the Agency does not have any employees (it uses employees from the City), it is not liable for injury to employees, workers' compensation, or employee health and accident insurance. The City has had no reductions in insurance coverage. Settled claims did not exceed insurance coverage during the past fiscal year.

Note 9. Commitments and Contingencies

Operating lease:

The Agency has one parking lot lease and one building lease, all on a month-to-month lease term.

Carlsbad Redevelopment Agency**Notes to Financial Statements**

Note 10. Interfund Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfers In	Transfers Out	Amount
Capital Project Funds	Debt Service Funds	\$ 1,838,000
		<u>\$ 1,838,000</u>

Tax increment revenues are recorded in the Debt Service Funds. Transfers are made to the Capital Project Funds from the Debt Service Funds as needed to cover operating costs.

Note 11. Subsequent Events**Recent Changes in Legislation Affecting California Redevelopment Agencies**

In June 2011, the Governor of the State of California signed legislation to provide for the eventual dissolution of redevelopment agencies. This legislation provides for the continued operation of the agency if certain payments are made to the State of California. Those agencies that elect not to make such payments will not be permitted to initiate new projects, obligations, or activities after July 1, 2011. Such agencies will only be permitted to pay existing obligations as defined by this legislation. This legislation is the subject of certain lawsuits that challenge its constitutionality. The Agency's plans regarding this matter are to continue to make the required payments in order to allow for continued operation and receipt of tax increment.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

Supplementary Information

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Carlsbad Redevelopment Agency

**Combining Schedule of Revenues and Expenditures—Budget and Actual (Budgetary Basis)—
Debt Service Funds
Year Ended June 30, 2011**

	Budget	Actual Amounts (Budgetary Basis)	Variance Over (Under)
Redevelopment Areas:			
Total revenues	\$ 2,800,000	\$ 2,873,537	\$ 73,537
Total expenditures	1,365,740	1,365,261	(479)
Net change in fund balance	\$ 1,434,260	\$ 1,508,276	\$ 74,016

Carlsbad Redevelopment Agency

**Combining Schedule of Revenues and Expenditures—Budget and Actual (Budgetary Basis)—
Capital Project Funds
Year Ended June 30, 2011**

	Budget	Actual Amounts (Budgetary Basis)	Variance Over (Under)
Redevelopment Areas:			
Total revenues	\$ 24,000	\$ 203,992	\$ 179,992
Total expenditures	4,676,960	949,447	(3,727,513)
Net change in fund balance	\$ (4,652,960)	\$ (745,455)	\$ 3,907,505

Carlsbad Redevelopment Agency

**Computation of Low-Moderate Income Housing Excess/Surplus Funds
Year Ended June 30, 2011**

	Project Area I Village
Fund Balance—Beginning of Year	\$ 8,849,744
Less Unavailable Funds—included in beginning fund balance:	
Rehabilitation loans	3,164,191
Future loan	4,250,000
Encumbrances	2,000
Total unavailable funds	7,416,191
Available Fund Balance—Beginning of Year	1,433,553
Current Year Proceeds/Uses (actual plus changes in unavailable):	
Proceeds	1,548,909
Uses	(78,210)
Changes in unavailable amounts	-
Available Fund Balance—End of Year	2,904,252
Encumbrances	-
Future Loan	-
Available Fund Balance—for Excess Surplus	\$ 2,904,252
Does available fund balance for excess/surplus exceed \$1,000,000?	
If so, enter available fund balance and evaluate that amount against tax increment.	
If less, enter zero.	\$ 2,904,252
Does available fund balance for excess/surplus exceed the greater of prior four years' set-aside deposits or \$1,000,000?	
Tax increment set-aside amounts:	
Fiscal year 2006-07	666,106
Fiscal year 2007-08	664,886
Fiscal year 2008-09	709,121
Fiscal year 2009-10	705,980
Total set-aside deposited into fund	2,746,093
Excess/Surplus Funds	
Greater of available fund balance for excess/surplus less prior four years' tax increment set-aside deposits	\$ 158,159
Reconciliation to Ending Fund Balance	
Ending GAAP Fund Balance	\$ 9,834,429
Available Fund Balance—end of year above	\$ 2,904,252
Rehabilitation loans	2,678,177
Future loan	4,250,000
Encumbrances	2,000
Ending Fund Balance	\$ 9,834,429

Carlsbad Redevelopment Agency

**Computation of Low-Moderate Income Housing Excess/Surplus Funds, Continued
Year Ended June 30, 2011**

	Project Area II South Carlsbad
Fund Balance—Beginning of Year	\$ 309,911
Less Unavailable Funds—included in beginning fund balance:	
Rehabilitation loans	-
Prepaid expenses	-
Encumbrances	-
Total unavailable funds	-
Available Fund Balance—Beginning of Year	309,911
Current Year Proceeds/Uses (actual plus changes in unavailable):	
Proceeds	3,380
Uses	(43,988)
Changes in unavailable amounts	-
Available Fund Balance—End of Year	269,303
Encumbrances	-
Available Fund Balance—for Excess Surplus	\$ 269,303
Does available fund balance for excess/surplus exceed \$1,000,000?	
If so, enter available fund balance and evaluate that amount against tax increment.	
If less, enter zero.	\$ -
Does available fund balance for excess/surplus exceed the greater of prior four years' set-aside deposits or \$1,000,000?	
Tax increment set-aside amounts:	
Fiscal year 2006-07	-
Fiscal year 2007-08	-
Fiscal year 2008-09	-
Fiscal year 2009-10	-
Total set-aside deposited into fund	-
Excess/Surplus Funds	
Greater of available fund balance for excess/surplus less prior four years' tax increment set-aside deposits	\$ -
Reconciliation to Ending Fund Balance	
Ending GAAP Fund Balance	\$ 269,303
Available Fund Balance—end of year above	\$ 269,303
Rehabilitation loans	-
Encumbrances	-
Ending Fund Balance	\$ 269,303

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**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Carlsbad Redevelopment Agency
Carlsbad, California

Independent Auditors' Report

We have audited the financial statements of the governmental activities and each major fund of the Carlsbad Redevelopment Agency, ("Agency"), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted by the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Board of Directors
Carlsbad Redevelopment Agency
Page Two

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management of the Agency, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman M. Cornell

Irvine, California
November 11, 2011



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Board of Directors
Carlsbad Redevelopment Agency
Carlsbad, California

REPORT ON COMPLIANCE AND OTHER MATTERS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT IN RELATION TO THE REDEVELOPMENT PROGRAM TAKEN AS A WHOLE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditors' Report

Compliance

We have audited the Carlsbad Redevelopment Agency's compliance with the *Guidelines for Compliance Audits California Redevelopment Agencies*, issued by the California State Controller applicable to the Carlsbad Redevelopment Agency ("Agency") for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits California Redevelopment Agencies*, issued by the California State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect in relation to the redevelopment program taken as a whole. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect in relation to the redevelopment program taken as a whole for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Board of Directors
Carlsbad Redevelopment Agency
Page Two

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and the State Controller and is not intended to be and should not be used by anyone other than those specified parties.

Meagan Hoffman, MLSP, P.C.

Irvine, California
November 11, 2011